Changes in Guarantee Fees: 2008 to 2022

The Enterprises' guarantee fees have changed significantly since 2008. This section provides a narrative of the major changes to ongoing and upfront fees over the past 15 years.

Faced with deteriorating conditions in the housing market, each Enterprise implemented a guarantee fee increase in March 2008 to better align fees with credit risk. Specifically, the Enterprises increased ongoing fees and introduced the following two new upfront fees: (1) a fee based on a borrower's LTV ratio and credit score, and (2) an adverse market charge. Later in 2008, the Enterprises refined their LTV ratio- and credit score-based upfront fees, and in subsequent years gradually raised their fees to better reflect credit risk.

The Temporary Payroll Tax Cut Continuation Act of 2011 funded an extension of the payroll tax cut. To comply with the TCCA, in late December 2011, FHFA directed the Enterprises to increase the ongoing fees for all loans by 10 basis points effective with April 2012 deliveries.[7]

In August 2012, FHFA directed the Enterprises to increase their guarantee fees by an additional 10 basis points on average to compensate taxpayers more fully for bearing credit risk. The increase was allocated in a way that more closely aligned the profitability gaps of 15-year and 30-year loans and reduced differences in the ongoing fees of small volume sellers and large volume sellers. This change was effective with December 2012 deliveries.

FHFA announced another guarantee fee change in December 2013 that would have increased ongoing fees by 10 basis points and made other changes to the fee structure. However, in January 2014, FHFA suspended implementation of the change pending further review. In April 2015, FHFA completed its further review of the adequacy of the Enterprises' guarantee fees and found no compelling economic reason to change the overall level of fees. However, FHFA directed the Enterprises to make certain minor and targeted fee adjustments effective with September 2015 deliveries:

[7] The Enterprises collect the TCCA fee and pass it through to the U.S. Department of the Treasury. For the purposes of reporting to FHFA, the Enterprises include the 10-basis point TCCA fee in both the guarantee fee and model fee (estimated total cost). The profitability gaps shown in this report do not reflect the benefit of the 10-basis point fee because it is both an income and an expense item.

- Due to improvements in the housing market, in April 2015, FHFA removed the 25-basis point upfront adverse market charge, in place since 2008.
- To offset the revenue lost from the removal of the adverse market charge, FHFA made targeted increases in upfront fees for a subset of loans, including some higher-risk loan segments (cash-out refinances, jumbo conforming loans, investment properties, and loans with secondary financing) and those with both high credit scores and low LTV ratios. The net effect of these targeted fee increases and the removal of the upfront adverse market charge on high credit score, low LTV ratio loans was approximately revenue neutral and resulted in little or no change in loan interest rates for most borrowers.

In 2016, as part of its regular monitoring of guarantee fees, FHFA observed that the average ongoing fees charged by the two Enterprises were declining. FHFA directed the Enterprises in July 2016 to set minimum ongoing guarantee fees by product type, effective in November 2016, consistent with its responsibility to ensure the safety and soundness of the Enterprises. Between September 2018 and February 2019, both Enterprises implemented a 25-basis point upfront fee on second home loans.

In April 2020, following the start of the COVID-19 pandemic, FHFA allowed the Enterprises to purchase loans already in forbearance, which previously would not have been deliverable, with an upfront fee add-on of 500 basis points for first-time homebuyers and 700 basis points for all others. After multiple extensions, this provision expired with loans closed through December 31, 2020. In August 2020, FHFA directed the Enterprises to introduce a 50-basis point upfront Adverse Market Refinance Fee (AMRF) on cash-out and rate-term refinances, effective on December 1, 2020. The intent of this fee was to cover projected COVID-19 losses of at least $6 billion at the Enterprises. The Enterprises excluded from the fee loans with a principal balance at or below $125,000, those associated with Fannie Mae's HomeReady and Freddie Mac's Home Possible offerings (low down payment financing products), and construction-to-permanent loans meeting certain criteria.[8]

In July 2021, FHFA announced that the Enterprises would eliminate the AMRF for loan deliveries effective August 1, 2021, because of the success of FHFA's and the Enterprises' COVID-19 policies in reducing the negative financial impact of the pandemic on the Enterprises. In November 2021, the Infrastructure Investment and Jobs Act extended to 2032 the existing 10-

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[8] See the descriptions for HomeReady and Home Possible at https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homeready-mortgage and https://sf.freddiemac.com/working-with-us/origination-underwriting/mortgage-products/home-possible, respectively.

basis point ongoing TCCA fee. This fee was previously due to expire in 2022. The Enterprises continue to remit the proceeds from this fee to the U.S. Department of the Treasury.

In January 2022, FHFA announced targeted increases to upfront fees for certain high balance loans and second home loans. These increases became effective on April 1, 2022.

In October 2022, FHFA announced the elimination of upfront fees for certain homebuyers and affordable products. Upfront fees were eliminated for first-time homebuyers at or below 100 percent of area median income, and below 120 percent in high-cost areas; HomeReady and Home Possible loans; HFA Advantage and HFA Preferred loans; and single-family loans supporting the Duty to Serve program. Targeted increases to upfront fees for cash-out refinances were also announced, to become effective on February 1, 2023. The reduced revenue from the elimination of upfront fees for certain homebuyers and affordable products was primarily offset by the targeted fee increases on certain high balance loans, second home loans, and cash-out refinances.

Market Overview for 2022

Total Enterprise loan acquisitions in 2022 were considerably lower than the levels of 2021. Acquisition activity declined due to higher mortgage interest rates resulting from interest rates rising through much of 2022. The Enterprises acquired 3.8 million mortgages for a total dollar volume of $1.1 trillion, accounting for an estimated 61 percent of the total mortgage market in 2022. This compares to 9.0 million mortgages acquired by the Enterprises in 2021 with a total dollar volume of $2.6 trillion. Of the Enterprise acquisitions in 2022, 63 percent were purchase mortgages, 12 percent were rate-term refinances, and 25 percent were cash-out refinances.

Guarantee Fee and Profitability Gap Results for 2022

This report compares average guarantee fees and average profitability gaps on Enterprise loan acquisitions from 2021 to 2022. The report includes breakouts by year, product type, and loan purpose; risk class (LTV ratio and credit score); and seller delivery volume. The breakouts allow for attribution of changes in the average guarantee fee and the average profitability gap to changes over time in the acquisition composition. Because this report uses economic concepts rather than accounting data to analyze guarantee fees, certain metrics in this report differ from similar metrics reported in the published financial statements of the Enterprises, which are prepared in accordance with Generally Accepted Accounting Principles.

I. Study Population

The study population consists of single-family mortgages acquired by the Enterprises under their standard underwriting and delivery guidelines from January 1, 2021 through December 31, 2022. Loan counts and acquisition dollar volumes fell sharply in 2022 compared to 2021, largely due to rising mortgage interest rates in 2022 (see Table 1). Rising mortgage interest rates also contributed to a shift in loan purpose and product mix across the two years. The Enterprises' 2022 acquisitions featured a greater proportion of home purchase loans and a lower proportion of refinance loans compared to 2021.

Table 1: Total Study Population – Dollar and Loan Volume

	2021	2022	Change 2021 to 2022
Dollars (in Billions)	**$2,555**	**$1,145**	**($1,411)**
Loans (in Millions)	**9.0**	**3.8**	**(5.2)**

II. Average Guarantee Fees by Year, Product, and Purpose

The average total guarantee fee was 61 basis points in 2022, up from 57 basis points in 2021 (see Table 2). The increase is largely due to the change in loan purpose and product mix across the two years. The Enterprises' 2022 acquisitions featured higher shares of home purchase loans and 30-year fixed-rate loans compared to 2021. Guarantee fees on home purchase loans tend to be higher on average compared to guarantee fees on refinance loans. Similarly, guarantee fees on 30-year fixed-rate mortgages tend to be higher than guarantee fees on 15-year and 20-year fixed-rate mortgages.

Table 2: Average Guarantee Fees by Year

	2021	2022
Total G-Fee (bps)	57	61
Ongoing Fee (bps)	43	44
Upfront Fee (bps)	14	17
Total Gap (bps)	5	3

The shift towards home purchase loans and 30-year fixed-rate mortgages was also reflected in changes to average ongoing and upfront guarantee fees. Additionally, the increase in mortgage interest rates in 2022 compared to 2021 affected the level of the Enterprises' annualized upfront guarantee fees. The Enterprises' ongoing fees increased to 44 basis points in 2022, from 43 basis points in 2021. Their non-annualized upfront fees charged were also up slightly to 94 basis points in 2022, from 92 basis points in 2021. However, the expected life of the Enterprises' acquisitions declined to 5.8 years in 2022, from 6.9 years in 2021. The decline in expected life, coupled with the modest increase in non-annualized guarantee fees, resulted in a more significant increase of annualized upfront fees to 17 basis points in 2022, compared with 14 basis points in 2021. This meaningful shift helps to explain why the Enterprises' average total guarantee fees (reflecting the combination of ongoing and annualized upfront fees) in 2022 exceed those in 2021.

Table 3: Average Guarantee Fees by Year, Product, and Purpose

	2021 UPB Share	2021 G-Fee (bps)	2021 Gap (bps)	2022 UPB Share	2022 G-Fee (bps)	2022 Gap (bps)
By Product Type						
30-year Fixed	78%	60	5.2	87%	63	2.6
15-year Fixed	14%	42	-0.6	8%	42	-0.7
Fixed Other Terms	7%	53	8.6	4%	54	7.9
ARM Loans	0%	57	9.7	1%	59	5.9
By Loan Purpose						
Purchase	34%	55	-0.3	62%	59	0.2
Rate-Term Refinance	41%	53	3.4	13%	50	-1.5
Cash-Out Refinance	24%	66	13.6	25%	69	10.2

The average profitability gap in 2022 was 2 basis points lower than the average profitability gap in 2021. However, the positive profitability gap indicates that the expected profitability on new loans remained above the Enterprises' minimum return on capital thresholds.

Two main factors contribute to the movement in profitability gaps over time. First, yearly changes to the cost estimation model and capital-related assumptions affect the profitability gaps. Second, changes in the loan mix affect the profitability gaps, as the Enterprises acquire more or fewer loans in different risk categories each year.

From 2021 to 2022, the share of the study population accounted for by 30-year fixed-rate loans increased by 9 percentage points. This increased demand for 30-year mortgages was driven largely by the higher mortgage interest rates in 2022, which challenged affordability for many consumers.

From 2021 to 2022, the average guarantee fee on 30-year fixed-rate loans increased from 60 to 63 basis points, driven by a lower proportion of refinance loans, particularly rate-term refinance loans, which tend to have lower guarantee fees. The average fee on 15-year fixed-rate loans was unchanged at 42 basis points. The average fee on adjustable-rate mortgages increased by 2 basis points to 59 basis points.

Profitability gaps declined across product types for 2022. Expected profitability declined by 2.6 basis points to 2.6 basis points for 30-year fixed-rate loans, by 0.1 basis points to -0.7 basis points for 15-year fixed-rate loans, and by 3.8 basis points to 5.9 basis points for adjustable-rate mortgages.

The average fee on home purchase loans increased by 4 basis points in 2022 to 59 basis points. The average fee on rate-term refinances decreased by 3 basis points to 50 basis points, in part due to the elimination of the AMRF. The average fee on cash-out refinances increased by 3 basis points to 69 basis points.

The profitability gap on home purchase loans increased by 0.5 basis points to 0.2 basis points. The profitability gap on rate-term refinances decreased by 4.9 basis points to -1.5 basis points, in part due to the elimination of the AMRF. The profitability gap on cash-out refinances decreased by 3.4 basis points to 10.2 basis points.

Mortgage interest rates increased steeply in 2022, as 30-year fixed-rate mortgage interest rates reached a 20-year high of nearly 7.1 percent late in the year. Rising interest rates led to a sharp decline in refinances, and a corresponding increase in the percentage of home purchase loans. Home purchase borrowers tend to have lower credit scores than refinance borrowers which has led, during this period, to a decrease in the ratio of high credit score borrowers. Similarly, home purchase loans tend to have higher LTV ratios than refinance loans, which resulted in an increased share of high LTV ratio loans. Both changes resulted in more capital being required to guarantee these loans and a corresponding decrease in profitability for the Enterprises. The transition to the ERCF also increased capital more significantly for 15-year fixed-rate loans, primarily due to the risk-weight floor.

III. Average Guarantee Fees by Risk Class

Table 4: Average Guarantee Fees by Risk Class

	2021 UPB Share	2021 G-Fee (bps)	2021 Gap (bps)	2022 UPB Share	2022 G-Fee (bps)	2022 Gap (bps)
By LTV Ratio						
<=80	79%	57	7.0	68%	62	6.7
80-90*	9%	55	-4.7	12%	59	-5.0
>90*	12%	54	-4.4	20%	56	-7.5
By Credit Score						
<660	3%	79	9.5	4%	85	7.8
660-719	17%	66	2.7	21%	71	0.1
>=720	80%	54	4.8	76%	57	2.9

*Loans with LTV ratios greater than 80 percent require credit enhancement, which often takes the form of private mortgage insurance.

As discussed previously, rising interest rates in 2022 led to a sharp decline in refinances, and a corresponding increase in the percentage of home purchase loans. Home purchase borrowers tend to have lower credit scores than refinance borrowers, so the ratio of high credit score borrowers decreased. Similarly, home purchase loans tend to have higher LTV ratios than refinance loans, so the ratio of high LTV ratio loans increased.

Guarantee fees increased for all LTV ratio categories in 2022. The average fees increased by 5 basis points, to 62 basis points, for loans with an LTV ratio less than or equal to 80 percent. The average fees increased by 4 basis points, to 59 basis points, for loans with an LTV ratio greater than 80 percent but less than or equal to 90 percent. The average fees increased by 2 basis points, to 56 basis points, on loans with an LTV ratio greater than 90 percent.

The Enterprises' charters require credit enhancement on single-family acquisitions when a loan's original loan-to-value ratio exceeds 80 percent. In practice, the Enterprises typically fulfill this requirement by acquiring loans with mortgage insurance provided by approved private mortgage insurers. The private mortgage insurers absorb losses before the Enterprises, reducing the credit risk taken on by the Enterprises. As a result, the Enterprises' guarantee fees on loans with original loan-to-value ratios exceeding 80 percent are lower than they would be absent this credit enhancement, because credit losses are first borne by the private mortgage insurers.

Profitability gaps decreased by 0.3 basis points on loans with an LTV ratio less than or equal to 80 percent. Profitability gaps decreased by 0.3 basis points on loans with an LTV ratio greater than 80 percent but less than or equal to 90 percent. Profitability gaps decreased by 3.1 basis points on loans with an LTV ratio greater than 90 percent.

Guarantee fees increased for all credit score categories. Average fees increased by 6 basis points, to 85 basis points, for loans with credit scores under 660. Average fees increased by 5 basis points, to 71 basis points, for loans with credit scores greater than or equal to 660 and below 720. Average fees increased by 3 basis points, to 57 basis points, for loans with credit scores greater than or equal to 720.

Profitability decreased for all credit score groups. Profitability gaps decreased by 1.7 basis points, to 7.8 basis points, for loans with credit scores under 660. Profitability gaps decreased by 2.6 basis points, to 0.1 basis points, for loans with credit scores greater than or equal to 660 and below 720. Profitability gaps decreased by 1.9 basis points, to 2.9 basis points, for loans with credit scores greater than or equal to 720.

IV. Average Guarantee Fees by Seller Volume

Table 5: Average Guarantee Fees by Seller Volume

		2021 UPB Share	2021 G-Fee (bps)	2021 Gap (bps)	2022 UPB Share	2022 G-Fee (bps)	2022 Gap (bps)
By Seller Volume							
MBS Swap	Small	1%	50	-0.5	1%	51	-6.8
	Medium	24%	57	4.4	17%	61	2.2
	Large	76%	57	5.1	82%	62	3.3
Cash Window	Small	34%	56	4.3	39%	58	1.8
	Medium	48%	56	3.8	60%	60	1.4
	Large	18%	55	5.4	1%	56	-4.8

Together, the Enterprises acquired loans from 1,764 sellers in the study population in 2022, with each Enterprise individually acquiring loans from about 1,000 sellers. FHFA divided these sellers into three groups based on their share of total Enterprise acquisition volume. The seller volume groups are comprised of those sellers with a share of total Enterprise acquisition volume at or above 2 percent (Large), greater than or equal to 0.1 percent and less than 2 percent (Medium), and below 0.1 percent (Small), within each year studied. Generally, smaller sellers tend to sell loans for cash, and larger sellers exchange loans for MBS. The cash window provides a service for small sellers, as it allows for smaller transaction sizes. Large sellers tend to prefer MBS swaps, as this provides them with liquid, marketable securities.

Across both MBS swap and cash window channels combined, the average guarantee fee by seller size was 58 basis points for the small seller group, 60 basis points for the medium seller group, and 62 basis points for the large seller group.

In the cash window channel, the Enterprises hold the acquired loans in portfolio until they can be securitized. In the process, the Enterprises take on additional risk and costs, including but not limited to liquidity risk and hedging costs. The Enterprises also receive additional non-guarantee fee compensation for these risks and costs. Therefore, guarantee fees through the cash window channel are not directly comparable to guarantee fees through the MBS swap channel.

Fees increased across all channels and seller sizes in 2022, as there were fewer rate-term refinance loans, which tend to have lower fees. The relatively high profitability gaps on rate-term refinance loans also led to profitability gaps decreasing for all channels and seller sizes. For the MBS swap channel, guarantee fees increased for all seller volume groups. Average fees increased by 5 basis points, to 62 basis points, for large sellers. Average fees increased by 4 basis points, to 61 basis points, for medium sellers. Average fees increased by 1 basis point, to 51 basis points, for small sellers.

For the MBS swap channel, profitability gaps fell across all seller volume groups. Profitability gaps decreased by 1.8 basis points, to 3.3 basis points, for large sellers. Profitability gaps decreased by 2.2 basis points, to 2.2 basis points, for medium sellers. Profitability gaps decreased by 6.3 basis points, to -6.8 basis points, for small sellers. Small sellers do not typically deliver loans through MBS swaps, so these loans represent atypical deliveries.

For the cash window channel, average fees increased by 1 basis point, to 56 basis points, for large sellers. Average fees increased by 4 basis points, to 60 basis points, for medium sellers. Average fees increased by 2 basis points, to 58 basis points, for small sellers. Because large sellers deliver the vast majority of their loans through MBS swaps, the loans delivered through the cash window tend to be outliers in terms of pricing.

For the cash window channel, profitability gaps fell across all seller volume groups. Profitability gaps decreased by 10.2 basis points, to -4.8 basis points, for large sellers. Profitability gaps decreased by 2.4 basis points, to 1.4 basis points, for medium sellers. Profitability gaps decreased by 2.5 basis points, to 1.8 basis points, for small sellers. Large sellers do not typically deliver loans through the cash window, so these loans represent atypical deliveries.

Appendix: Timeline of Changes in Guarantee Fees from 2008 to 2022

Date	Change
March 2008	The Enterprises increased ongoing fees and added two new upfront fees: a fee based on the borrower's LTV ratio and credit score, and a 25-basis point adverse market fee.
Late 2008 through 2011	The Enterprises gradually raised fees and refined their upfront fee schedules.
December 2011	Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, FHFA directed the Enterprises to increase the ongoing fee for all loans by 10 basis points. The Enterprises pay this fee to the U.S. Department of the Treasury. This fee increase was effective with April 2012 deliveries and was set to expire after 10 years.
August 2012	FHFA directed the Enterprises to raise fees by an additional 10 basis points on average to better compensate for credit risk exposure. FHFA directed the Enterprises to raise fees more on loans with terms longer than 15 years than on shorter-term loans to better align the profitability gaps and to make fees more uniform across sellers with varying loan delivery volumes. These changes were effective with December 2012 MBS deliveries.
December 2013	FHFA directed the Enterprises to increase ongoing fees by 10 basis points, change upfront fees to better align pricing with credit risk characteristics, and remove the 25-basis point adverse market fee for loans in all but four states. However, in January 2014, FHFA suspended the implementation of these changes pending review.
April 2015	FHFA completed its fee review and directed the Enterprises to eliminate the adverse market fee in all markets and add targeted increases for specific loan groups effective with September 2015 deliveries. These changes were approximately revenue-neutral with little or no impact for most borrowers.
July 2016	Based on findings from FHFA's quarterly guarantee fee reviews, the Agency directed the Enterprises to set minimum ongoing guarantee fees by product type, effective in November 2016, consistent with FHFA's responsibility to ensure the safety and soundness of the Enterprises.
September 2018 & March 2019	The Enterprises implemented a 25-basis point upfront fee for loans on second homes where the LTV ratio exceeds 85 percent.
April 2020	FHFA allowed the Enterprises to purchase loans in forbearance, with an upfront fee add-on of 500 basis points for first-time homebuyers and 700 basis points for all others, effective for loans closed through December 31, 2020, following multiple extensions.

August 2020	FHFA directed the Enterprises to introduce a 50-basis point upfront adverse market refinance fee, effective December 1, 2020, for cash-out and rate-term refinances. The Enterprises excluded loans with a principal balance less than or equal to $125,000, those associated with HomeReady/Home Possible, and construction-to-permanent loans meeting certain criteria.
July 2021	FHFA announced that the Enterprises would eliminate the adverse market refinance fee for loan deliveries effective August 1, 2021.
November 2021	The Infrastructure Investment and Jobs Act extended to 2032 the existing 10-basis point ongoing fee arising from the Temporary Payroll Tax Cut Continuation Act of 2011, which was due to expire in 2022. The Enterprises remit the proceeds from this fee to the U.S. Department of the Treasury.
January 2022	FHFA announced targeted increases to upfront fees for certain high balance loans and second home loans, effective April 1, 2022.
October 2022	FHFA announced the elimination of upfront fees for certain homebuyers and affordable products. Upfront fees were eliminated for first-time homebuyers at or below 100 percent of area median income, and below 120 percent in high-cost areas; HomeReady and Home Possible loans; HFA Advantage and HFA Preferred loans; and single-family loans supporting the Duty to Serve program. Targeted increases to upfront fees for cash-out refinances were announced, effective February 1, 2023.